

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 895 - HB 1289

March 23, 2015

SUMMARY OF BILL: Requires a health insurer to pay a claim within 10 days of receiving such claim through electronic submission, if the service was approved under the insurer's prior authorization process before the service was performed. The health insurer must pay an amount equal to that which was approved prior to the service being performed.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures - \$1,673,600

Increase Federal Expenditures - \$1,717,900

Assumptions:

- This bill has an effective date of July 1, 2015.
- Pursuant to Tenn. Code Ann. § 56-7-109, a health insurance entity or third-party administrators (TPAs) have 21 days to pay a claim for which prior authorization was provided and subsequently, a service was provided to the insured; however, prior authorization does not necessarily mean the claim will be paid in full despite receiving such authorization.
- A claim may be approved by prior authorization and the provision of care performed; the insurer may afterwards determine that only a portion of the claim is clean. A clean claim requires no further information from the healthcare provider and therefore, will be reimbursed. If a portion of the claim is judged unclean by the insurer, such insurer must notify the provider in writing of all the reasons the claim is not clean and will not receive reimbursement. The insurer must subsequently provide the healthcare provider what information must be received to adjudicate the unclean portion as clean.
- Requiring a claim be paid within 10 days of electronic submission will limit health insurers' ability to perform pre-pay reviews and therefore, catch portions of claims that received prior authorization, but upon further review, would have been adjudicated as lacking documentation and information supporting the claim. It is assumed that insurers will need additional personnel to perform expedited reviews on such claims.
- The Department of Finance and Information, Division of Benefits Administration (Division) has two TPAs. In FY12-13, these TPAs received approximately 9,000,000 claims. Approximately 5 percent (0.05) of these claims or 450,000 received prior authorization (9,000,000 x 0.05). These carriers will need to dedicate personnel to effectively adjudicate these claims and meet this 10-day limit.
- The Division pays the TPAs by an actuarially determined per-member per-month fee.

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- Based on information provided by the Division, the increased cost to the state is estimated to be \$750,000.
- The Bureau of TennCare contracts with three TPAs. Each has reviewed its ability to meet this 10-day requirement and subsequently determined that it will incur increases in personnel and systems costs to effectively review claims in the given time limit.
- Total increase in expenditures to the Bureau's TPAs for operational and personnel costs are estimated to be \$2,641,546 (\$950,000 + \$715,000 + \$976,546).
- These expenditures will be paid 65.035 percent (0.65035) federal matching funds; therefore, the state portion is at a rate of 34.965 percent (0.34965).
- Increase in recurring state expenditures of \$923,617 (\$2,641,546 x 0.34965).
- Increase in recurring federal expenditures of \$1,717,929 (\$2,641,546 x 0.65035).
- Total increase in recurring state expenditures of \$1,673,617 (\$750,000 + \$923,617).

IMPACT TO COMMERCE:

Increase Business Revenue - \$3,391,500

Increase Business Expenditures - \$3,391,500

Assumption:

- TPA's and healthcare providers will experience an increase in business expenditures of at least \$3,391,500.
- Insurers and healthcare providers will pass on such costs to plan subscribers by increasing rates.
- Due to multiple unknown factors, the extent to which insurance providers will increase premiums to offset rising costs is unknown.
- It is likely that requiring a 10-day turnaround on claim reimbursements will result in healthcare providers experiencing an increase in revenue due to insurers' inability to perform pre-pay review on claims with prior authorization. Due to multiple unknown factors, this impact cannot be quantified.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Jeffrey L. Spalding, Executive Director

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